

MUSCATINE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

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Muscatine Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 election)		
Jerry Lange	President	2006
Ann Hart	Vice President	2007
Robin Krueger	Board Member	2006
Paul Brooks	Board Member	2006
Clyde Evans	Board Member	2007
Bob Leech	Board Member	2008
Tom Welk	Board Member	2008
Board of Education (After September 2006 election)		
Tom Welk	President	2008
Paul Brooks	Vice President	2009
Clyde Evans	Board Member	2007
Ann Hart	Board Member	2007
Bob Leech	Board Member	2008
Tammi Drawbaugh	Board Member	2009
Joyce Haller	Board Member	2009
School Officials		
Dr. Tom Williams	Superintendent	2007
Jean K. Long	District Treasurer	2007
Diannia McDonald	District Secretary	2007
Duane J. Goedken	Attorney	2007
Stanley, Lande & Hunter	Attorney	2007

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Muscatine Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Muscatine Community School District, Muscatine, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

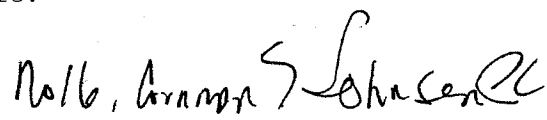
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Muscatine Community School District at June 30, 2007, and its discretely presented Component Unit as of and for the year ended December 31, 2007 and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2008 on our consideration of the Muscatine Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Muscatine Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$40,628,340 in fiscal 2006 to \$42,727,968 in fiscal 2007, while General Fund expenditures increased from \$41,223,850 in fiscal 2006 to \$42,675,455 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$7,659,613 in fiscal 2006 to a balance of \$7,712,126 in fiscal 2007, a .69% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources. The increase in expenditures was primarily due to an increase in negotiated salaries and benefits.
- A major construction and renovation project at Central Middle School was started in fiscal year 2006. The \$4.0 million project consists of renovated gymnasium, new industrial arts facilities, expansion of the cafeteria, an elevator and life safety work. As of June 30, 2007, approximately \$3.0 million of this project was completed.
- A major renovation of the Muscatine High School Cafeteria began in fiscal year 2005-06. The projected cost of the renovation is \$850,000, which includes purchasing of new serving and preparation equipment and student seating. This project was completed in fiscal year 2006-07.
- At June 30, 2007, the District had \$3.3 million in other long-term debt outstanding. This represents an increase of 50.5% from last year. The contributing factor was the discontinuance of our early retirement program, which resulted in a significant increase in the number of retirees.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Muscatine Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Muscatine Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Muscatine Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Muscatine Community School District Annual Financial Report

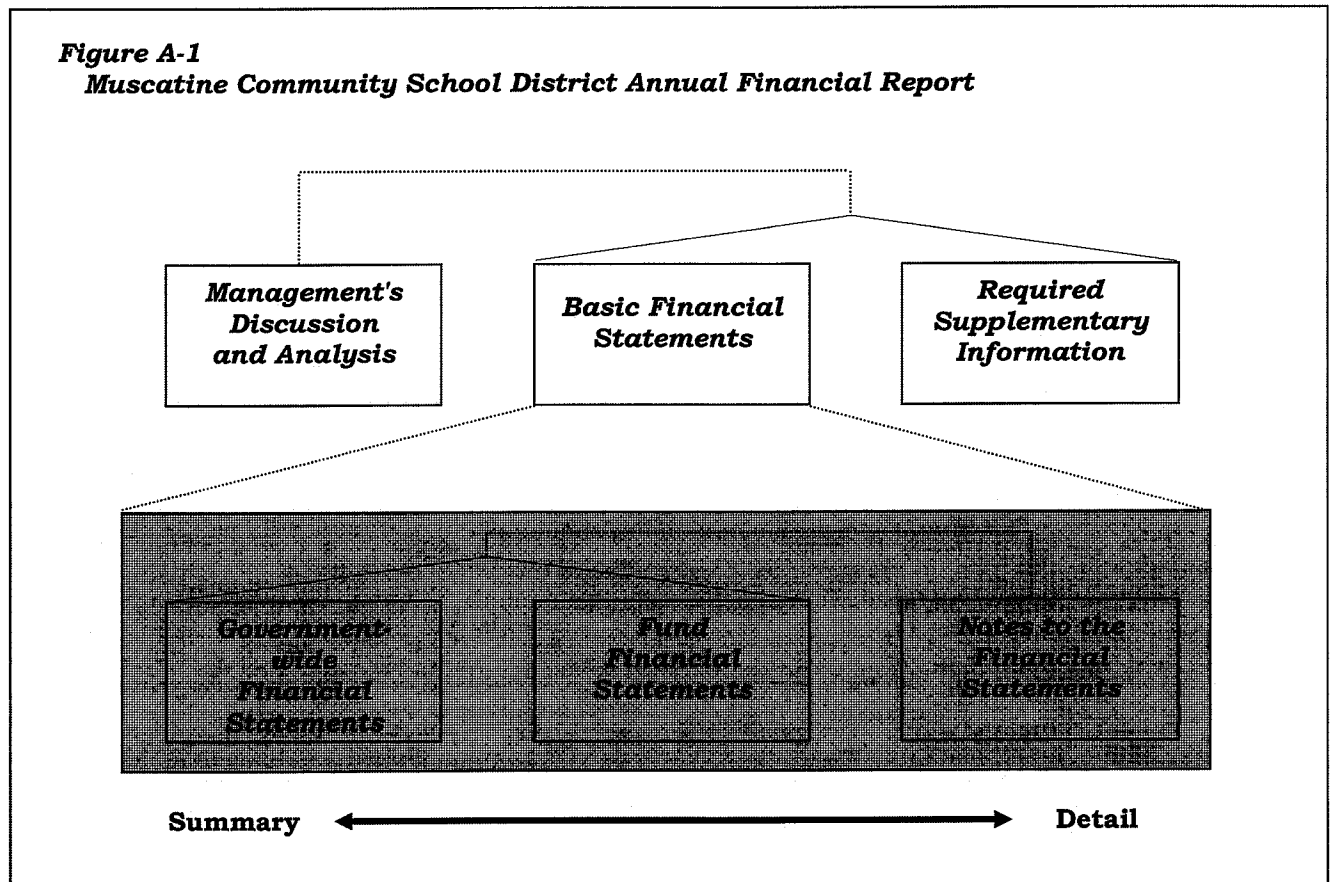


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Day Care Fund and one Internal Service Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund and Agency Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District fees, Retiree Health Insurance, Band Rentals, Flex Spending Accounts, Child Medical Assistance, MHS Arts, Drivers Ed Equipment, Industrial Technology, Elementary Projects, Hall of Honor and Camps accounts and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 35,591,956	20,820,001	666,184	939,794	36,258,140	21,759,795	66.63%
Capital assets	24,223,993	21,182,091	199,620	90,451	24,423,613	21,272,542	14.81%
Total assets	59,815,949	42,002,092	865,804	1,030,245	60,681,753	43,032,337	41.01%
Long-term obligations	3,300,864	2,193,581	0	0	3,300,864	2,193,581	50.48%
Other liabilities	19,279,128	4,377,661	86,421	148,348	19,365,549	4,526,009	327.87%
Total liabilities	22,579,992	6,571,242	86,421	148,348	22,666,413	6,719,590	237.32%
Net assets:							
Invested in capital assets, net of related debt	24,223,993	22,321,995	199,620	90,451	24,423,613	22,412,446	8.97%
Restricted	8,079,507	7,288,780	0	0	8,079,507	7,288,780	10.85%
Unrestricted	4,932,457	5,820,075	579,763	791,446	5,512,220	6,611,521	-16.63%
Total net assets	\$ 37,235,957	35,430,850	779,383	881,897	38,015,340	36,312,747	4.69%

The District's combined net assets increased by 4.69%, or \$1,702,593, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$790,727, or 10.85% over the prior year. The increase was primarily a result of increase in fund balances in the Capital Projects and Physical Plant and Equipment Levy Funds.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$1,099,301, or 16.63%. This decrease in unrestricted net assets was a result of the District's increase in Early Retirement liabilities owed from the General and Management Levy Funds.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 and June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,700,257	1,564,795	1,160,967	1,153,631	2,861,224	2,718,426	5.25%
Operating grants and contributions and restricted interest	5,894,560	5,231,404	1,157,741	1,151,960	7,052,301	6,383,364	10.48%
Operating grants and contributions and restricted interest	72,130	1,275,000	0	0	72,130	1,275,000	-94.34%
General revenues:							
Property tax	13,637,835	13,702,671	0	0	13,637,835	13,702,671	-0.47%
Local option sales and services tax	3,318,683	3,158,570	0	0	3,318,683	3,158,570	5.07%
Unrestricted state grants	23,680,846	22,751,569	0	0	23,680,846	22,751,569	4.08%
Unrestricted investment earnings	868,357	611,121	2,488	4,129	870,845	615,250	41.54%
Other general revenue	393,294	1,281,338	0	19,077	393,294	1,300,415	-69.76%
Total revenues	49,565,962	49,576,468	2,321,196	2,328,797	51,887,158	51,905,265	-0.03%
Program expenses:							
Governmental activities:							
Instructional	33,091,335	31,308,323	0	0	33,091,335	31,308,323	5.70%
Support services	12,810,504	9,927,261	41,512	0	12,852,016	9,927,261	29.46%
Non-instructional programs	93,809	11,621	2,382,198	2,169,649	2,476,007	2,181,270	13.51%
Other expenses	1,765,207	4,077,088	0	0	1,765,207	4,077,088	-56.70%
Total expenses	47,760,855	45,324,293	2,423,710	2,169,649	50,184,565	47,493,942	5.67%
Changes in net assets	1,805,107	4,252,175	(102,514)	159,148	1,702,593	4,411,323	61.40%
Beginning net assets	35,430,850	31,178,675	881,897	722,749	36,312,747	31,901,424	13.83%
Ending net assets	\$ 37,235,957	35,430,850	779,383	881,897	38,015,340	36,312,747	4.69%

In fiscal 2007, property tax, local option sales and services tax and unrestricted state grants account for 81.99% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.89% of the revenue from business type activities.

The District's total revenues were approximately \$51.9 million of which \$49.6 million was for governmental activities and less than \$2.3 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a .03% decrease in revenues and a 5.67% increase in expenses. The increase in expenses related to increase in the negotiated salary and benefits, as well as increases in utilities and transportation costs.

Governmental Activities

Revenues for governmental activities were \$49,565,962 and expenses were \$47,760,855.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 33,091,335	31,308,323	5.70%	27,377,528	26,328,543	3.98%
Support services	12,810,504	9,927,261	29.04%	12,622,571	9,762,288	29.30%
Non-instructional programs	93,809	11,621	707.24%	93,809	11,621	707.24%
Other expenses	1,765,207	4,077,088	-56.70%	0	1,150,642	-100.00%
Totals	\$ 47,760,855	45,324,293	5.38%	40,093,908	37,253,094	7.63%

- The cost financed by users of the District's programs was \$1,700,257.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$5,966,690.
- The net cost of governmental activities was financed with \$13,637,835 in property tax, \$3,318,683 in local option sales and services tax, \$23,680,846 in unrestricted state grants, \$868,357 in interest income and \$393,294 in other general revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$2,321,196 and expenses were \$2,423,710. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Muscatine Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$16,312,828, above last year's ending fund balances of a \$15,302,436. This primarily resulted from an increase in the Capital Projects fund balance.

Governmental Fund Highlights

- The District's increase in General Fund financial position from \$7,659,613 to \$7,712,126 is the product of many factors. Increases in local tax and state sources were greater than the increase in operating costs during the year caused the General Fund balance to increase by \$52,513. In addition, the negotiated salaries and benefits accounted for 82.43% of the General Fund expenditures.
- The Physical Plant and Equipment Levy Fund balance increased from \$3,170,430 in fiscal 2006 to \$3,208,243 in fiscal 2007. The District had less revenues and expenditures during the year compared to the prior year. The net change in this fund was an increase of \$37,813.

-
- The Capital Projects Fund balance increased from \$3,448,584 in fiscal 2006 to \$4,166,901 in fiscal 2007. The District had received more in local option sales and services tax than the increase in capital construction expenditures resulting in a \$718,317 increase.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$881,897 at June 30, 2006 to \$779,383 at June 30, 2007, representing a decrease of 11.62%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Muscatine Community School District amended its annual budget one time to reflect additional expenditures associated with the other expenditures.

The District's revenues were \$731,172 more than budgeted revenues, a variance of 1.43%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$24.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$1,717,201.

The original cost of the District's capital assets was \$45.7 million. Governmental funds account for \$45.5 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$2,993,127 at June 30, 2007, compared to \$445,634 reported at June 30, 2006. This increase resulted from the building improvements on Central Middle School and Jefferson Elementary, as well as land improvements to the Administration parking lot that were started and not completed during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 694,270	694,270	0	0	694,270	694,270	0.00%
Construction in progress	2,993,127	445,634	0	0	2,993,127	445,634	85.11%
Buildings	17,547,482	18,271,705	0	0	17,547,482	18,271,705	-4.13%
Land improvements	1,550,147	1,579,662	0	0	1,550,147	1,579,662	-1.90%
Machinery and equipment	1,438,967	1,330,724	199,620	90,451	1,638,587	1,421,175	13.27%
Total	\$ 24,223,993	22,321,995	199,620	90,451	24,423,613	22,412,446	8.23%

Long-Term Debt

At June 30, 2007, the District had \$3,300,864 in other long-term debt outstanding. This represents an increase of 50.48% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding Early Retirement payable from the General and Management Levy Funds of \$3,300,864 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
Early Retirement	\$ 3,300,864	2,193,581	50.48%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The district has no General obligation bonded indebtedness.
- The district negotiated two-year collective bargaining agreements for all employee groups for fiscal years 2008 and 2009. The two-year agreements provide total package increases of 3.8% and 3.5%. The district will need to negotiate collective bargaining agreements for all employee groups in 2009. We will again attempt to have two-year agreements.
- The State School Budget Review Committee granted requests from school districts state wide for modified allowable growth as a result of the requirement to convert to budgeting under Generally Accepted Accounting Principles from Cash basis budgeting in fiscal year 2007. Each school district had to apply for the allowable growth but the authority was granted by class action for all the districts that applied. This amounted to \$3,750,622 worth of additional budget authority for the district. This greatly affected our unspent balance, which could influence or collective bargaining settlements in the future.
- The district's regular program cost per pupil increased 4% from \$5,128 in fiscal year 2007 to \$5,333 in fiscal year 2008. The legislators also approved a 4% increase for fiscal year 2009, which would result in the district's regular program cost per pupil of \$5,546. This is an important figure as the district's budget is mostly determined by multiplying this figure times the certified enrollment. This positively affects our budget.

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- The school district's certified enrollment decreased 12.6 FTE from 5,569.4 students in September 2004 to 5,556.8 students in September 2005, another 52.7 FTE students in October 2006 resulting in a certified enrollment of 5,504.1, and yet another decrease of 34.2 FTE students in October 2007. The October 2007 certified enrollment was 5,469.9. This represents a negative trend. These are important figures as the district's budget is determined by multiplying this figure times the regular program district cost. With declining enrollment, this negatively affects our budget and capacity to spend. This is something we are going to have to deal with in setting the budget and during negotiations.
 - The district terminated an early retirement incentive program offered to eligible district employees in fiscal year 2007. This influenced the number of retirees in fiscal year 2007 because of the uncertainty of having the option to retiree with an incentive later. This resulted in 36 employees electing early retirement. This will affect our management levy rate and the general fund expenditures for salaries over the next several years.
 - The Local Option Sales and Service Tax and the Physical Plant and Equipment Levies will expire in 2010. The district plans to put the Local Option Sales Tax issue before the voters of Muscatine County in March of 2008 and the Physical Plant and Equipment Levy before the voters of Muscatine School District in September of 2008.
 - The increasing cost of fossil fuels is making a profound affect on the cost of transporting students as well as the delivery charges for supplies and materials. This is also having an affect on our utility costs.
 - With the federal No Child Left Behind legislation, all schools must annually meet numerous accountability standards or be placed on a leveled sanction list. To meet the sanctions, districts must provide increased professional development for the certified staff. Professional development requires increased financial resources that include additional teacher compensation, purchasing curriculum materials, staff attendance at out-of-district workshops, and the hiring of outside consultants.
 - Muscatine High School and West Middle School were cited as Schools in Need of Assistance (SINA) due to achievement in mathematics and reading. To address the student academic needs, additional funds will need to be allocated for the Every Student Counts and Second Chance Reading professional development. Expenses include training materials and paying teachers for training during off-contract hours.
 - The Iowa Department of Education has implemented additional initiatives that will require resource allocation. The Iowa Model core Curriculum will require the alignment of the district's curriculum to the state's model. Teachers will need to work additional off-contract hours to complete this mandate.
 - Currently NCLB requires that testing scores be disaggregated and reported for grades 3 – 8 and 11. This is a time consuming process. This mandate will require additional staff hours to disaggregate, analyze, and report the data to students, parents, staff, board of education, and community.
 - Another part of NCLB requires paraprofessionals who work in a Title One building be highly qualified. To meet this standard, paraprofessionals must have additional training which is provided on an ongoing basis by district personnel.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jean Long, Director of Finance and Budgeting, Muscatine Community School District, 2900 Mulberry Avenue, Muscatine, Iowa, 52761.

BASIC FINANCIAL STATEMENTS

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 20,326,881	488,383	20,815,264
Receivables:			
Property tax:			
Delinquent	135,907	0	135,907
Succeeding year	14,247,990	0	14,247,990
Accounts	34,858	518	35,376
Due from other governments	813,639	124,057	937,696
Inventories	32,681	53,226	85,907
Capital assets, net of accumulated depreciation (Note 4)	24,223,993	199,620	24,423,613
TOTAL ASSETS	59,815,949	865,804	60,681,753
LIABILITIES			
Accounts payable	784,551	639	785,190
Salaries and benefits payable	4,213,744	62,048	4,275,792
Deferred revenue:			
Succeeding year property tax	14,247,990	0	14,247,990
Other	32,843	0	32,843
Unearned revenue	0	23,734	23,734
Long-term liabilities (Note 5):			
Portion due within one year:			
Early retirement payable	812,571	0	812,571
Portion due after one year:			
Early retirement payable	2,488,293	0	2,488,293
TOTAL LIABILITIES	22,579,992	86,421	22,666,413
NET ASSETS			
Invested in capital assets	24,223,993	199,620	24,423,613
Restricted for:			
Weighted limited english proficient	28,601	0	28,601
Talented and gifted	62,131	0	62,131
Beginning teacher mentoring program	154	0	154
Salary improvement program	14,592	0	14,592
Additional teacher contract day	28,300	0	28,300
Professional development	31,631	0	31,631
Market factor	38,115	0	38,115
Phase I	10,903	0	10,903
Phase II	15,564	0	15,564
Early intervention	32,903	0	32,903
Physical plant and equipment levy	3,208,243	0	3,208,243
Capital projects	4,166,901	0	4,166,901
Other special revenue purposes	441,469	0	441,469
Unrestricted	4,932,457	579,763	5,512,220
TOTAL NET ASSETS	\$ 37,235,957	779,383	38,015,340

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Charges for	Operating Grants, Contributions and Restricted	Capital Grants, Contributions and Restricted		Governmental	Business-Type	
Expenses	Services	Interest	Interest		Activities	Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular instruction	\$ 21,183,445	720,080	3,676,919	0	(16,786,446)	0	(16,786,446)
Special instruction	6,760,353	303,023	311,662	0	(6,145,668)	0	(6,145,668)
Other instruction	5,147,537	607,378	94,745	0	(4,445,414)	0	(4,445,414)
	33,091,335	1,630,481	4,083,326	0	(27,377,528)	0	(27,377,528)
Support services:							
Student services	1,333,720	0	0	0	(1,333,720)	0	(1,333,720)
Instructional staff services	962,608	0	0	0	(962,608)	0	(962,608)
Administration services	4,682,443	0	0	0	(4,682,443)	0	(4,682,443)
Operation and maintenance of plant services	4,222,659	0	0	72,130	(4,150,529)	0	(4,150,529)
Transportation services	1,609,074	69,776	46,027	0	(1,493,271)	0	(1,493,271)
	12,810,504	69,776	46,027	72,130	(12,622,571)	0	(12,622,571)
Non-instructional programs							
Food service operations	74,041	0	0	0	(74,041)	0	(74,041)
Community service operations	19,768	0	0	0	(19,768)	0	(19,768)
	93,809	0	0	0	(93,809)	0	(93,809)
Other expenditures:							
AEA flowthrough	1,765,207	0	1,765,207	0	0	0	0
Total governmental activities	47,760,855	1,700,257	5,894,560	72,130	(40,093,908)	0	(40,093,908)
Business-Type activities:							
Support services:							
Administration services	41,512	0	0	0	0	(41,512)	(41,512)
Non-instructional programs:							
Nutrition services	2,382,198	1,160,967	1,157,741	0	0	(63,490)	(63,490)
Total business-type activities	2,423,710	1,160,967	1,157,741	0	0	(105,002)	(105,002)
Total	\$ 50,184,565	2,861,224	7,052,301	72,130	(40,093,908)	(105,002)	(40,198,910)
General Revenues:							
Local tax for:							
General purposes				\$ 12,837,385	0		12,837,385
Capital projects				800,450	0		800,450
Local option sales and services tax				3,318,683	0		3,318,683
Unrestricted state grants				23,680,846	0		23,680,846
Unrestricted investment earnings				868,357		2,488	870,845
Other general revenue				393,294	0		393,294
Total general revenues				41,899,015		2,488	41,901,503
Changes in net assets				1,805,107		(102,514)	1,702,593
Net assets beginning of year				35,430,850		881,897	36,312,747
Net assets end of year				\$ 37,235,957		779,383	38,015,340

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 11,729,082	3,382,784	3,954,405	1,260,610	20,326,881
Receivables:					
Property tax:					
Delinquent	115,185	7,191	0	13,531	135,907
Succeeding year	11,781,413	910,632	0	1,555,945	14,247,990
Accounts	26,860	0	0	7,998	34,858
Due from other governments	301,341	139	511,889	270	813,639
Inventories	32,681	0	0	0	32,681
TOTAL ASSETS	\$ 23,986,562	4,300,746	4,466,294	2,838,354	35,591,956
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 268,085	181,871	299,393	35,202	784,551
Salaries and benefits payable	4,192,095	0	0	21,649	4,213,744
Deferred revenue:					
Succeeding year property tax	11,781,413	910,632	0	1,555,945	14,247,990
Other	32,843	0	0	0	32,843
Total liabilities	16,274,436	1,092,503	299,393	1,612,796	19,279,128
Fund balances:					
Reserved for:					
Capital facility construction	0	0	1,544,726	0	1,544,726
Inventories	32,681	0	0	0	32,681
Weighted limited english proficient	28,601	0	0	0	28,601
Talented and gifted	62,131	0	0	0	62,131
Beginning teacher mentoring program	154	0	0	0	154
Salary improvement program	14,592	0	0	0	14,592
Additional teacher contract day	28,300	0	0	0	28,300
Professional development	31,631	0	0	0	31,631
Market factor	38,115	0	0	0	38,115
Phase I	10,903	0	0	0	10,903
Phase II	15,564	0	0	0	15,564
Early intervention	32,903	0	0	0	32,903
Designated for:					
Special purposes	674,685	0	0	0	674,685
Medicaid reserve	9,382	0	0	0	9,382
Unreserved:					
Undesignated:					
General	6,732,484	0	0	0	6,732,484
Physical plant and equipment levy	0	3,208,243	0	0	3,208,243
Capital projects	0	0	2,622,175	0	2,622,175
Management levy	0	0	0	784,089	784,089
Other special revenue purposes	0	0	0	441,469	441,469
Total fund balances	7,712,126	3,208,243	4,166,901	1,225,558	16,312,828
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,986,562	4,300,746	4,466,294	2,838,354	35,591,956

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 17) \$ 16,312,828

*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in the governmental funds. 24,223,993

Long-term liabilities, including early retirement, are not
due and payable in the current period and, therefore, are not
reported as liabilities in the governmental funds. (3,300,864)

Net assets of governmental activities (page 15) \$ 37,235,957

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 11,487,137	800,450	3,318,683	1,350,248	16,956,518
Tuition	685,601	0	0	0	685,601
Other	1,236,621	240,108	122,751	973,681	2,573,161
State sources	27,848,872	443	0	0	27,849,315
Federal sources	1,466,847	31,630	0	0	1,498,477
Total revenues	42,725,078	1,072,631	3,441,434	2,323,929	49,563,072
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	18,244,622	35,020	0	831,770	19,111,412
Special instruction	6,760,353	0	0	0	6,760,353
Other instruction	4,311,653	0	0	831,420	5,143,073
	29,316,628	35,020	0	1,663,190	31,014,838
Support services:					
Student services	1,312,745	0	0	18,114	1,330,859
Instructional staff services	968,569	0	0	6,898	975,467
Administration services	4,363,369	158,991	0	125,209	4,647,569
Operation and maintenance of plant services	3,595,853	11,364	0	174,446	3,781,663
Transportation services	1,333,316	0	0	87,675	1,420,991
	11,573,852	170,355	0	412,342	12,156,549
Non-instructional programs:					
Food service operations	0	0	0	44,407	44,407
Community service operations	19,768	0	0	0	19,768
	19,768	0	0	44,407	64,175
Other expenditures:					
Facilities acquisitions	0	831,684	2,723,117	0	3,554,801
Long-term debt:					
AEA flowthrough	1,765,207	0	0	0	1,765,207
	1,765,207	831,684	2,723,117	0	5,320,008
Total expenditures	42,675,455	1,037,059	2,723,117	2,119,939	48,555,570
Excess of revenues over expenditures	49,623	35,572	718,317	203,990	1,007,502
Other financing sources(uses):					
Proceeds from the disposal of property	2,890	0	0	0	2,890
Transfer in	0	2,241	0	0	2,241
Transfer out	0	0	0	(2,241)	(2,241)
Total other financing sources(uses)	2,890	2,241	0	(2,241)	2,890
Net change in fund balances	52,513	37,813	718,317	201,749	1,010,392
Fund balance beginning of year	7,659,613	3,170,430	3,448,584	1,023,809	15,302,436
Fund balance end of year	\$ 7,712,126	3,208,243	4,166,901	1,225,558	16,312,828

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 19) \$ 1,010,392

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 3,496,798	
Depreciation expense	(1,594,800)	1,901,998

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement

(1,107,283)

Changes in net assets of governmental activities (page 16)

\$ 1,805,107

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
ASSETS	
Current assets:	
Cash and pooled investments	\$ 488,383
Accounts receivable	518
Due from other governments	124,057
Inventories	53,226
Non-current assets:	
Capital assets, net of accumulated depreciation (Note 4)	199,620
TOTAL ASSETS	<u>865,804</u>
LIABILITIES	
Accounts payable	639
Salaries and benefits payable	62,048
Unearned revenue	23,734
TOTAL LIABILITIES	<u>86,421</u>
NET ASSETS	
Invested in capital assets	199,620
Unrestricted	579,763
Total net assets	<u>\$ 779,383</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 1,160,967
OPERATING EXPENSES:	
Support services:	
Administration services:	
Salaries	28,627
Benefits	9,762
Services	3,123
Total support services	<u>41,512</u>
Non-instructional programs:	
Food service operations:	
Salaries	816,695
Benefits	246,899
Services	84,434
Supplies	1,110,033
Depreciation	122,401
Other	1,736
Total non-instructional programs	<u>2,382,198</u>
TOTAL OPERATING EXPENSES	<u>2,423,710</u>
OPERATING LOSS	<u>(1,262,743)</u>
NON-OPERATING REVENUES:	
State sources	21,883
Federal sources	1,135,858
Interest income	2,488
TOTAL NON-OPERATING REVENUES	<u>1,160,229</u>
Change in net assets	(102,514)
Net assets beginning of year	<u>881,897</u>
Net assets end of year	<u>\$ 779,383</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 1,159,356
Cash received from miscellaneous operating activities	101
Cash payments to employees for services	(1,086,899)
Cash payments to suppliers for goods or services	(1,164,313)
Net cash used in operating activities	<u>(1,091,755)</u>
Cash flows from non-capital financing activities:	
State grants received	21,883
Federal grants received	896,597
Net cash provided by non-capital financing activities	<u>918,480</u>
Cash flows from capital financing activities:	
Acquisitions of assets	(231,570)
Net cash used in capital financing activities	<u>(231,570)</u>
Cash flows from investing activities:	
Interest on investment	2,488
Net cash provided by investing activities	<u>2,488</u>
Net decrease in cash and cash equivalents	(402,357)
Cash and cash equivalents at beginning of year	<u>890,740</u>
Cash and cash equivalents at end of year	<u>\$ 488,383</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,262,743)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	115,204
Depreciation	122,401
Increase in inventories	(4,283)
Increase in accounts receivable	(407)
Decrease in accounts payable	(75,908)
Increase in salaries and benefits payable	15,084
Decrease in deferred revenue	(1,103)
Net cash used in operating activities	<u>\$ (1,091,755)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	<u>\$ 488,383</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received
Federal commodities valued at \$115,204.
SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	Private Purpose Trust Scholarship Fund	Agency Fund
ASSETS		
Cash and pooled investments:		
U.S. Treasury Bonds	\$ 74,000	0
Other	80,745	601,447
Accrued interest receivable	1,142	0
Total assets	<u>155,887</u>	<u>601,447</u>
LIABILITIES		
Due to other groups	0	601,447
Total liabilities	<u>0</u>	<u>601,447</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 155,887</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2007

	Private Purpose Trust Scholarship Fund
Additions:	
Local sources:	
Interest income	\$ 1,424
Total additions	<u>1,424</u>
Deletions:	
Regular instruction:	
Scholarships awarded	<u>9,996</u>
Total deletions	<u>9,996</u>
Change in net assets	(8,572)
Net assets beginning of year	<u>164,459</u>
Net assets end of year	<u>\$ 155,887</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - CASH BASIS
COMPONENT UNIT
DECEMBER 31, 2006

ASSETS	
Cash and cash equivalents	\$ 401,489
Certificates of Deposit	460,369
Investments	921,290
TOTAL ASSETS	<u>1,783,148</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Restricted net assets	1,721,537
Unrestricted net assets	61,611
TOTAL NET ASSETS	<u>\$ 1,783,148</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS - CASH BASIS
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2006

	Restricted Funds	Unrestricted Funds	Total All Funds
REVENUES:			
Interest	28,979	1,520	30,499
Dividends	9,740	0	9,740
Donations	383,746	28,526	412,272
Capital gains on investments	21,525	0	21,525
Realized gain	157	0	157
Other	(28,313)	0	(28,313)
TOTAL REVENUES	415,834	30,046	445,880
EXPENSES:			
Scholarships	82,836	3,510	86,346
Grants	17,593	0	17,593
Foundation performance	0	1,266	1,266
Contracted services	1,611	738	2,349
Supplies	0	996	996
Audit	0	1,560	1,560
TOTAL EXPENSES	102,040	8,070	110,110
Excess of revenues over expenses	313,794	21,976	335,770
OTHER FINANCING SOURCES:			
Unrealized gain on investments	78,510	0	78,510
TOTAL OTHER FINANCING SOURCES	78,510	0	78,510
Change in net assets	392,304	21,976	414,280
Net assets beginning of year	1,329,233	39,635	1,368,868
Net assets end of year	\$ 1,721,537	61,611	1,783,148

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Muscatine Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Muscatine, Iowa, and the predominate agricultural territory in Muscatine County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Muscatine Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Muscatine Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

These financial statements present Muscatine Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting because of the significance of its operational or financial relationship with the District. Certain disclosures about the component unit are not included because the component unit has been audited separately and report has been issued under separate cover. The audited financial statements are available at the District.

Discrete Component Unit - Muscatine Community School Foundation is a legally separate not-for-profit foundation. The Foundation was established for the purpose of giving financial assistance to the Muscatine Community School District and granting scholarships to its students who will attend community colleges and universities. The Foundation is governed by a Board of Directors who are appointed by the School District Board.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Muscatine County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund

are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for building improvements and equipment purchases.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary fund is the Enterprise Fund, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets help by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements.

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Land improvements	10,000
Machinery and equipment:	
School Nutrition Fund equipment	250
Other machinery and equipment	2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designated Fund Balances - In the governmental fund financial statements, designated funds are not available for appropriation but are set aside for a specific purpose. The designated fund balances are reported for a specific purpose for an amount that reflects tentative planned actions of the board and a reserve for Medicaid.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and

regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Bonds are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Bonds are stated at fair value. Bonds traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2007, the District had investments in U.S. Treasury Bonds as follows:

	<u>Fair Value</u>
U.S. Treasury Bonds	<u>\$ 74,000</u>

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 753</u>

At June 30, 2007, the District had investments in Tamarack Investment Funds as follows:

	<u>Amortized Cost</u>
Tamarack Investment Funds	<u>\$ 6,784</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service. The investments in the Tamarack Investment Funds are registered and not subject to rating.

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Physical Plant and Equipment Levy	Debt Service	\$ 2,241

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 210,830	231,570	0	442,400
Less accumulated depreciation	120,379	122,401	0	242,780
Business-type activities capital assets, net	\$ 90,451	109,169	0	199,620

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 694,270	0	0	694,270
Construction in progress	445,634	2,620,494	73,001	2,993,127
Total capital assets not being depreciated	1,139,904	2,620,494	73,001	3,687,397
Capital assets being depreciated:				
Buildings	34,404,405	411,526	0	34,815,931
Land improvements	1,849,738	60,484	0	1,910,222
Machinery and equipment	4,679,925	477,295	31,168	5,126,052
Total capital assets being depreciated	40,934,068	949,305	31,168	41,852,205
Less accumulated depreciation for:				
Buildings	16,132,700	1,135,749	0	17,268,449
Land improvements	270,076	89,999	0	360,075
Machinery and equipment	3,349,201	369,052	31,168	3,687,085
Total accumulated depreciation	19,751,977	1,594,800	31,168	21,315,609
Total capital assets being depreciated, net	21,182,091	(645,495)	0	20,536,596
Governmental activities capital assets, net	\$ 22,321,995	1,974,999	73,001	24,223,993

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,276,205
Other	4,464
Support services:	
Support services	720
Instructional staff	8,256
Administration	24,941
Operation and maintenance of plant	63,247
Transportation	193,613
Non-instructional programs:	
Food service operations	23,354
Total governmental activities depreciation expense	\$ 1,594,800
Business-type activities:	
Food services	\$ 122,401

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early Retirement	\$ 2,193,581	1,575,522	468,239	3,300,864	812,571

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences and be eligible for health insurance by virtue of being full-time as defined by their employee group. The application for early retirement is subject to approval by the Board of Education.

The plan is reviewed and updated as required since its inception to meet the current IRS rules and court decisions. The monies are provided so that the retirees have monies to assist them purchasing health care. Under the present plan an employee currently enrolled in the district's insurance plan must deposit the proceeds pre-tax into a health reimbursement account and from this account they may pay health insurance premiums, co-pays, deductibles and out of pocket health costs. The employees who are not enrolled in the district health insurance program receive the proceeds after the normal deductions for FICA, Medicare, state and federal taxes.

Currently early retirement benefits are equal to 3% of the employee's regular contractual salary in effect during the employee's last year of employment times the number of year's of service not to exceed 33 years or two times the BA-1 (\$52,574 in FY-07). The benefit is paid out quarterly over five years commencing in July of the year of retirement.

At June 30, 2007, the District has obligations to 133 participants with a liability of \$3,300,864. Early retirement expenditures for the year ended June 30, 2007, totaled \$468,239. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$1,599,007, \$1,544,565 and \$1,483,309 respectively, equal to the required contributions for each year.

(7) Risk Management

The Muscatine Community School District is a member in the Iowa School Employees Benefits Association, fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: health, dental and long-term disability.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$3,663,246.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

Muscatine Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,765,207 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitments

The District entered into various contracts totaling \$4,060,599 for capital facility construction projects at Central Middle School, Jefferson Elementary and the Administration Office Building. At June 30, 2007, \$2,993,127 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Fund Types	Fund Type	Actual	Original	Final	
	Actual	Actual	Actual	Original	Final	
Revenues:						
Local sources	\$ 20,215,280	1,163,455	21,378,735	20,589,214	20,589,214	789,521
State sources	27,849,315	21,883	27,871,198	27,509,099	27,509,099	362,099
Federal sources	1,498,477	1,135,858	2,634,335	3,054,783	3,054,783	(420,448)
Total revenues	49,563,072	2,321,196	51,884,268	51,153,096	51,153,096	731,172
Expenditures:						
Instruction	31,014,838	0	31,014,838	32,371,861	32,371,861	1,357,023
Support services	12,156,549	41,512	12,198,061	10,416,294	12,286,375	88,314
Non-instructional programs	64,175	2,382,198	2,446,373	2,456,634	2,456,634	10,261
Other expenditures	5,320,008	0	5,320,008	5,373,240	5,710,442	390,434
Total expenditures	48,555,570	2,423,710	50,979,280	50,618,029	52,825,312	1,846,032
Excess(deficiency) of revenues over(under) expenditures	1,007,502	(102,514)	904,988	535,067	(1,672,216)	2,577,204
Other financing sources, net	2,890	0	2,890	0	0	2,890
Excess(deficiency) of revenues and other financing sources over(under) expenditures	1,010,392	(102,514)	907,878	535,067	(1,672,216)	2,580,094
Balance beginning of year	15,302,436	881,897	16,184,333	12,962,736	12,962,736	3,221,597
Balance end of year	\$ 16,312,828	779,383	17,092,211	13,497,803	11,290,520	5,801,691

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment increasing budgeted expenditures by \$2,207,283.

OTHER SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Manage- ment Levy	Student Activity	Total Other Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	\$ 775,757	484,853	1,260,610
Receivables:			
Property tax:			
Delinquent	13,531	0	13,531
Succeeding year	1,555,945	0	1,555,945
Accounts	0	7,998	7,998
Due from other governments	270	0	270
TOTAL ASSETS	\$ 2,345,503	492,851	2,838,354
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,469	29,733	35,202
Salaries and benefits payable	0	21,649	21,649
Deferred revenue:			
Succeeding year property tax	1,555,945	0	1,555,945
	1,561,414	51,382	1,612,796
 Fund balances:			
Unreserved:			
Undesignated	784,089	441,469	1,225,558
Total fund balances	784,089	441,469	1,225,558
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,345,503	492,851	2,838,354

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Nonmajor Special Revenue Funds				Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 1,350,248	0	1,350,248	0	1,350,248
Other	69,246	904,435	973,681	0	973,681
TOTAL REVENUES	1,419,494	904,435	2,323,929	0	2,323,929
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	831,770	0	831,770	0	831,770
Other instruction	0	831,420	831,420	0	831,420
Support services:					
Student services	18,114	0	18,114	0	18,114
Instructional staff services	6,548	350	6,898	0	6,898
Administration services	125,209	0	125,209	0	125,209
Operation and maintenance of plant services	174,446	0	174,446	0	174,446
Student transportation	68,275	19,400	87,675	0	87,675
Non-instructional programs:					
Food service operations	44,407	0	44,407	0	44,407
TOTAL EXPENDITURES	1,268,769	851,170	2,119,939	0	2,119,939
EXCESS OF REVENUES OVER EXPENDITURES	150,725	53,265	203,990	0	203,990
OTHER FINANCING USES:					
Transfer out	0	0	0	(2,241)	(2,241)
NET CHANGE IN FUND BALANCES	150,725	53,265	203,990	(2,241)	201,749
FUND BALANCE BEGINNING OF YEAR	633,364	388,204	1,021,568	2,241	1,023,809
FUND BALANCE END OF YEAR	\$ 784,089	441,469	1,225,558	0	1,225,558

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>High School:</u>				
Petty Cash	\$ 1,600	0	0	1,600
Professional Staff Scholarship	17	0	0	17
Student Services	17,425	13,195	11,031	19,589
AP Fund	2,502	20,733	19,626	3,609
Band	3,582	71,948	70,957	4,573
Chorus	5,918	19,854	20,031	5,741
All Colors Count	1,863	0	0	1,863
Interact Club	0	1,329	830	499
Drama	6,639	25,381	22,096	9,924
Forensics	11,583	5,940	5,298	12,225
Annual Auroran	18,862	8,512	12,155	15,219
Weekly Auroran	2,143	1,922	2,143	1,922
Auxiliary Scholarship	2,450	680	0	3,130
Class of 2005	0	195	0	195
Class of 2006	5,497	0	0	5,497
Class of 2007	3,253	1,235	0	4,488
Class of 2008	0	7,565	5,344	2,221
Close Up	0	7,585	7,585	0
Future Business Leaders	0	4,106	3,475	631
FFA Milk Machine	203	0	0	203
Fine Arts	2,072	0	0	2,072
French Club	470	1,042	0	1,512
German Club	0	39,578	41,478	(1,900)
Spanish Club	75	123	0	198
Library Club	348	488	0	836
MHS Science Club	0	1,952	1,334	618
Model UN	0	4,854	540	4,314
Student Council	0	26,869	17,795	9,074
Clubs	18,600	0	18,600	0
Athletics	(6,387)	178,237	169,316	2,534
Cheerleaders	1,756	8,721	7,924	2,553
Donation Fund	17,150	12,692	4,645	25,197
Pom Pom	3,029	18,760	19,419	2,370
Sports Calendar	4,446	30,862	22,657	12,651
Tournaments	6,439	5,478	3,616	8,301
Special Ed Work Experience	11,190	38,775	40,281	9,684
	<u>142,725</u>	<u>558,611</u>	<u>528,176</u>	<u>173,160</u>

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Elementary Schools:</u>				
Colorado	1,990	12,930	10,065	4,855
Franklin	4,978	6,302	6,761	4,519
Garfield	9,510	2,375	2,711	9,174
Grant	16,184	49,338	57,550	7,972
Jefferson	5,714	7,377	7,947	5,144
Madison	3,888	13,110	7,476	9,522
Madison Friends of Playgroud C.D.	7,500	0	0	7,500
Mckinley	6,398	29,772	29,852	6,318
Mulberry	6,500	11,640	7,484	10,656
Washington	5,327	15,502	10,760	10,069
Elementary Petty Cash	450	0	0	450
	<u>68,439</u>	<u>148,346</u>	<u>140,606</u>	<u>76,179</u>
<u>Central Middle School:</u>				
Athletics	302	4,682	2,989	1,995
Fund Raisers	12,408	33,670	33,616	12,462
Student Council	2,231	4,139	4,239	2,131
General Activity	12,303	10,823	3,258	19,868
Little Store	1,199	648	559	1,288
Music/Drama	3,766	1,708	3,029	2,445
Yearbook	2,506	4,456	4,470	2,492
Juice	3,734	4,410	6,117	2,027
Officials	1,577	3,867	3,643	1,801
Bookfairs	1,555	4,698	4,366	1,887
CMS Petty Cash	200	0	0	200
	<u>41,781</u>	<u>73,101</u>	<u>66,286</u>	<u>48,596</u>
<u>West Middle School:</u>				
Athletics	4,408	7,245	9,320	2,333
Fund Raisers	6,147	1,692	3,818	4,021
General Activity	18,675	14,844	25,334	8,185
Little Store	388	194	281	301
Music/Drama	6,638	9,210	7,369	8,479
WMS Bookfairs	1,478	1,093	1,097	1,474
Math-a-thon	4,993	0	798	4,195
Officials	0	7,552	7,552	0
Student Council	2,046	5,219	4,578	2,687
Yearbook	167	4,242	4,197	212
Band	3,391	2,463	943	4,911
6th Grade Bookfairs	3,377	2,557	1,710	4,224
WMS Petty Cash	200	0	0	200
	<u>51,908</u>	<u>56,311</u>	<u>66,997</u>	<u>41,222</u>

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Central Office:</u>				
College for Kids	12,980	41,932	44,612	10,300
Interest Investments	37,172	6,421	598	42,995
Miscellaneous	66	0	0	66
Community Education	144	0	0	144
Activity Van	32,989	19,713	3,895	48,807
	<u>83,351</u>	<u>68,066</u>	<u>49,105</u>	<u>102,312</u>
Total	<u>\$ 388,204</u>	<u>904,435</u>	<u>851,170</u>	<u>441,469</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 JUNE 30, 2007

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Total
ASSETS			
Cash and pooled investments:			
U.S. Treasury Bonds	\$ 74,000	0	74,000
Other	20,184	60,561	80,745
Accrued interest receivable	430	712	1,142
TOTAL ASSETS	94,614	61,273	155,887
 TOTAL LIABILITIES	 0	 0	 0
 NET ASSETS			
Reserved for scholarships	\$ 94,614	61,273	155,887

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN NET ASSETS
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 YEAR ENDED JUNE 30, 2007

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Total
Additions:			
Local sources:			
Interest on investments	\$ 536	888	1,424
Deductions:			
Instruction:			
Regular instruction:			
Scholarships awarded	7,990	2,006	9,996
Change in net assets	(7,454)	(1,118)	(8,572)
Net assets beginning of year	102,068	62,391	164,459
Net assets end of year	\$ 94,614	61,273	155,887

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 455,488	1,456,055	1,310,096	601,447
LIABILITIES				
Due to other groups	\$ 455,488	1,456,055	1,310,096	601,447

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	16,956,518	16,861,241	16,469,084	16,371,805
Tuition		685,601	627,827	1,095,561	1,182,937
Other		2,573,161	2,523,208	1,987,159	1,640,959
State sources		27,849,315	26,377,373	24,926,493	23,761,286
Federal sources		1,498,477	2,879,013	2,057,495	1,938,482
Other sources		0	156,851	203,136	13
Total	\$	49,563,072	49,425,513	46,738,928	44,895,482
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	19,111,412	18,801,847	18,951,377	17,678,401
Special instruction		6,760,353	10,525,190	10,372,197	9,765,835
Other instruction		5,143,073	1,538,951	1,156,007	1,117,281
Support services:					
Student services		1,330,859	1,312,963	1,263,997	1,183,036
Instructional staff services		975,467	1,772,001	1,362,482	1,380,395
Administration services		4,647,569	2,403,324	2,478,432	2,166,956
Operation and maintenance of plant services		3,781,663	3,668,441	3,388,560	3,376,632
Transportation services		1,420,991	1,332,785	1,311,873	937,431
Other support services		0	197,781	3,024	176,779
Non-instructional programs		64,175	57,958	68,506	81,022
Other expenditures:		3,554,801	2,714,403	4,127,947	4,765,109
Facilities acquisitions					
Long-term debt:					
Principal		0	760,000	735,000	869,478
Interest and fiscal charges		0	21,773	47,869	69,953
AEA flow-through		1,765,207	1,651,446	1,581,225	1,561,603
Total	\$	48,555,570	46,758,863	46,848,496	45,129,911

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION	10.550	FY 07	\$ 115,204
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	223,809
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	758,741
SPECIAL MILK PROGRAM FOR CHILDREN	10.556	FY 07	932
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 07	37,172
			<u>1,020,654</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-G	575,699
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-G	85,130
			<u>660,829</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	25,924
EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	84.281	FY 06	6,236
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 07	9,351
SPECIAL EDUCATION - STATE PROGRAM IMPROVEMENT GRANTS FOR CHILDREN WITH DISABILITIES(2ND CHANCE READING)	84.323	FY 07	6,598
EARLY READING FIRST	84.359	FY 06	32,396
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 06	12,234
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 07	9,458
			<u>21,692</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	6,657
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 07	253,278
			<u>259,935</u>

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED):			
DEPARTMENT OF EDUCATION (CONTINUED):			
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 07	<u>36,813</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	<u>70,237</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>302,364</u>
SPECIAL EDUCATION - PRESCHOOL GRANTS	84.173	FY 07	<u>2,700</u>
DEPARTMENT OF DEFENSE:			
MUSCATINE COUNTY:			
FLOOD CONTROL PROJECTS	12.106	FY 07	<u>31,630</u>
TOTAL			<u>\$ 2,602,563</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Muscatine Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Muscatine Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Muscatine Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muscatine Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Muscatine Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Muscatine Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Muscatine Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Muscatine Community School District's financial statements that is more than inconsequential will not be prevented or detected by Muscatine Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Muscatine Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

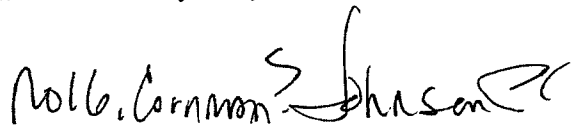
As part of obtaining reasonable assurance about whether Muscatine Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Muscatine Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Muscatine Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Muscatine Community School District and other parties to whom Muscatine Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Muscatine Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Muscatine Community School District

Compliance

We have audited the compliance of Muscatine Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Muscatine Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Muscatine Community School District's management. Our responsibility is to express an opinion on Muscatine Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muscatine Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Muscatine Community School District's compliance with those requirements.

In our opinion, Muscatine Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Muscatine Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Muscatine Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muscatine Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Muscatine Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Muscatine Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Muscatine Community School District and other parties to whom Muscatine Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2008

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiency in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered Programs
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.556 - Special Milk Program for Children
 - CFDA Number 10.559 - Summer Food Service Program for Children
 - Individual
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Muscatine Community School District did not qualify as a low-risk auditee.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCY:

- II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the bank reconciliations are prepared by an authorized signer and the same person who prepares the checks.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- II-B-07 Agency Funds - We noted during our audit that the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the district serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District place certain assets into custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund."

The District appears to be improperly accounting for agency accounts. We noted student fees, textbook fees, activity tickets, yearbook, planners, summer fees, book fines, credit card fees collected, flex spending, rental of band instruments, drivers ed equipment, technology carryovers and sales are reported in the Agency Fund. Agency funds are to account for non-district revenue. Many of these accounts should be reported in the General Fund.

Recommendation - The District should review Chapter 9 of the LEA Administrative Manual which identifies funds and allowable revenues and expenses. The District should review specifically the Student Activity and Agency Funds. The District should review each agency account for propriety and make the necessary transfers to the proper fund where monies can be appropriately be receipted and expensed.

Response - The District will review each account separately for the appropriateness of the fund.

Conclusion - Response accepted.

II-C-07 Student Activity Fund - During our audit issues arose about the propriety of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. A more specific example of these instances is as follows:

Donations from Target and Box Tops for Education recorded in the middle school and elementary funds. These donations do not specify the purpose other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. These accounts are District Activity Van, Home School Activity, Library/Bookfairs, and Petty Cash. These accounts appear to not be student run organization accounts and should be closed and transferred to the General Fund. The Petty Cash should be deposited at the end of year or included in which organization is using the money.

There are Interest accounts. These accounts should be allocated among the Student Activity Funds that earned the interest. This allocation should be done at least annually. Interest earned should be distributed to individual accounts within the Student Activity Fund.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - The District will review each account for its appropriateness of the fund.

Conclusion - Response accepted.

II-D-07 Corrective Transfer for Insurance Dividend - We noted during our audit that the District receipted an insurance dividend of \$22,822.43 into the General Fund; however, the insurance expense was paid from the Management Levy Fund.

Recommendation - The District should make a corrective transfer to the Management Levy Fund from the General Fund.

Response - The District will transfer money from General Fund to the Management Levy Fund in the amount of the dividend.

Conclusion - Response accepted.

II-E-07 Gate Admissions - It was noted that the District does not utilize pre-numbered tickets for event admissions and a reconciliation is not performed after the event.

Recommendation - The internal control of the District utilizing pre-numbered tickets is deteriorated by tearing off the number needed to reconcile to the cash collected. The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - The District will review gate admissions procedures.

Conclusion - Response accepted.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCY:

No matters were reported.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.

IV-B-07 Questionable Disbursements - We noted disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979. Expenditures were made by the District for cell phone usage.

Recommendation - The District should establish a board policy on cell phone usage and determine the extent to which the expenditures for cell phone usage meet the requirements of public purpose.

Response - The District will adopt a public purpose statement and cell phone usage policy.

Conclusion - Response accepted.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Ann Hurt, Board Member Owner of A Childs Place	Services	\$850

In accordance with Chapter 279.7A of the code of Iowa, the above transactions with the board member do not appear to represent a conflict of interest.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The District will publish the minutes as per required by 279.35 of the Code of Iowa.

Conclusion - Response accepted.

IV-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled in was overstated by 2.3 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management .

Conclusion - Response accepted.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.